

JAN 28 2015

A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The purpose of this measure is to assist the
2 employees' retirement system in improving and protecting its
3 funded status by properly funding membership service credit for
4 contributory and hybrid members receiving workers' compensation
5 benefits and acquiring retirement service credit. Employees
6 approved for workers' compensation wage loss replacement
7 benefits are paid up to their full salary for the period of
8 their leave. In contrast to other types of leaves, the employee
9 will earn full retirement service credit for this period and
10 contributory and hybrid employees have the option, but are not
11 required, to deduct retirement contributions for these wage
12 replacement benefits. If paid, these deficient contributions
13 may be reimbursed by the employee years after the service credit
14 is granted. Similarly, earned membership service is supported
15 by employee and employer contributions during the employee's
16 employment, but acquired service is not. Previously forfeited
17 service may be acquired at any time during the employee's
18 employment at a cost based on the employee's salary at the time

1 of purchase. Previous military service may be acquired at any
2 time after the member meets the eligibility requirements, at a
3 cost based on the employee's salary at the time of purchase.

4 The employee's acquisition cost is significantly lower than the
5 actuarial cost based on the employee's age, retirement
6 eligibility and projected retirement benefits. Thus, the
7 employee's increased retirement benefit resulting from
8 additional service acquired is funded primarily by employer
9 contributions and by contributions by other current and future
10 employees. This Act will require that contributions be made
11 contemporaneously with the payment of workers' compensation
12 benefits. In addition, this Act will require that the cost for
13 purchasing additional service credit be based on an actuarially
14 neutral calculation and sets a time limit in which the member
15 must initiate payment for certified membership service.

16 SECTION 2. Chapter 88 Hawaii Revised Statutes, is amended
17 by adding to subpart A of part II a new section to be
18 appropriately designated and to read as follows:

19 "88- Contributions for unpaid leaves of absence.
20 Contributions required as a condition to inclusion in membership
21 service of unpaid leaves of absence shall be made by the member
22 within one year after return from the leave of absence."

SECTION 3. Section 78-25, Hawaii Revised Statutes, is amended to read as follows:

"~~[§]~~ §78-25 ~~[§]~~ **Credits for employees receiving workers' compensation benefits; wage supplement.** (a) Where an employee is absent from work because of injuries incurred within the scope of the employee's employment and the employee is receiving workers' compensation benefits, the employee shall continue to earn vacation, sick leave, and retirement credits as though the employee were not absent but performing duties of the employee's regular employment. Section 386-57 or any other law to the contrary notwithstanding, the employee ~~[may elect to]~~ shall have deducted from the employee's workers' compensation benefit checks an amount calculated in the same manner as if the employee were not absent but performing duties of the employee's regular employment to be used as the employee's contribution to the retirement system.

(b) An employee who is receiving workers' compensation wage loss replacement benefits may use the employee's accumulated sick leave or vacation credits to supplement the workers' compensation wage loss replacement benefits to a sum not to exceed the employee's regular salary."

SECTION 4. Section 88-59, Hawaii Revised Statutes, is amended to read as follows:

1 "§88-59 Acquisition of membership service. (a) Under
2 rules as the board may adopt, any member may file with the
3 ~~[board]~~ system a statement of all service as an employee or
4 other service paid for by the State or a county rendered prior
5 to the member's last becoming a member that is not credited to
6 the member, for which the member claims prior service credit,
7 and also a statement of the services for which the member claims
8 membership service credit and for which the member agrees to
9 have additional deductions made from the member's compensation
10 or to make a lump sum payment as described in this section.

11 (b) After the filing of the statement, the board shall
12 verify the service claimed and determine the service credit
13 allowable. Verified prior service shall be credited. Verified
14 membership service shall be paid for by the member in any one of
15 the following methods, at the member's option:

16 (1) If deductions commence or the lump sum payment is made
17 prior to July 1, 2020:

18 ~~[+1+]~~ (A) By deductions from the member's compensation
19 pursuant to Section 414(h)(2) of the Internal Revenue
20 Code of 1986, as amended, under the employer pick up
21 plan under section 88-46. An irrevocable payroll
22 authorization filed by the member for a period not to
23 exceed sixty months shall remain in effect until the

1 completion of the payroll payments or termination of
2 employment, whichever is earlier. The member may
3 elect to have:

4 ~~[(A)]~~ (i) Deductions from the member's compensation of
5 twice the contribution rate provided for in
6 section 88-45 over a period equal to the period
7 for which membership service credit is allowable
8 not to exceed sixty months; or

9 ~~[(B)]~~ (ii) Deductions from the member's compensation
10 of one and one-half times the contribution rate
11 provided for in section 88-45 over a period equal
12 to twice the period for which membership service
13 credit is allowable not to exceed sixty months;
14 or

15 ~~[(2)]~~ (B) By lump sum payment of contributions computed at
16 the contribution rate provided for in section 88-45
17 applied to the member's monthly rate of compensation
18 at the time of payment multiplied by the number of
19 months for which membership service credit is
20 allowable; provided that after July 1, 1982, this
21 method shall not be available to any new member with
22 fewer than five years of membership service exclusive

1 of any previous service acquired under [paragraph
2 ~~(1)~~] subparagraph(A).

3 (2) If the deductions commence or the lump sum payment is
4 made after June 30, 2020:

5 (A) By deductions from the member's compensation
6 pursuant to section 414(h)(2) of the Internal
7 Revenue Code of 1986, as amended, under the
8 employer pick up plan under section 88-46. An
9 irrevocable payroll authorization filed by the
10 member for a period not to exceed sixty months
11 shall remain in effect until the completion of
12 the payroll payments or termination of
13 employment, whichever is earlier. The amount of
14 the deductions shall be sufficient to amortize
15 the actuarial cost of the membership service to
16 be credited, together with interest at the
17 investment yield rate assumption in effect as of
18 the date the claim for service credit is made, in
19 level twice-monthly payments over the period
20 specified in the irrevocable authorization.
21 Service credited shall be proportional on the
22 basis of whole months. For example, if a member
23 elects to acquire twenty-four months of service

1 over sixty months and terminates employment after
2 thirty and one-half months of deductions, the
3 member will acquire twelve months of membership
4 service credit; or

5 (B) By lump sum payment equal to the actuarial cost
6 of the membership service to be credited;
7 provided that the member has at least five years
8 of membership exclusive of any previous service
9 acquired under paragraph (1) or subparagraph (A).

10 The actuarial cost of the membership service to be credited
11 shall be determined by the actuary for the system based on
12 the age of the member in full years as of the date the
13 claim for service credit is made, the investment yield rate
14 assumption in effect as of the date the claim for service
15 credit is made, the retirement age eligibility requirements
16 and retirement allowance provisions applicable to the
17 member, and other actuarial assumptions adopted by the
18 board in effect as of the date the claim for service credit
19 is made.

20 The deductions from compensation or lump sum payment shall
21 be paid to the system and shall be credited to the member's
22 individual account and become part of the member's accumulated
23 contributions.

(c) Membership service credit, in addition to any other service credited to the member, shall be allowed for the period for which the deductions from compensation or lump sum payment have been made as described in this section[-]; provided that payment shall commence within one year after the system notifies the member that the service claimed has been verified and that service credit is allowable; and provided further that, for a member who becomes a member after June 30, 2016:

(1) Membership service credit for prior service or for service rendered prior to the member's last becoming a member shall be claimed within one year after the member enters service;

(2) Membership service credit for military service pursuant to section 88-132.5 shall be claimed within one year after the member meets the requirements of section 88-132.5(a) or (b); and

(3) Any other membership service credit acquired pursuant to this section shall be claimed within one year after the member becomes eligible to receive the service credit upon satisfaction of the requirements of this section.

(d) The contribution rates under section 88-45 shall be reduced by one and eight-tenths per cent for any service being

1 claimed prior to July 1, 2020, that was rendered prior to July
2 1, 1961."

3 SECTION 5. Section 88-324, Hawaii Revised Statutes, is
4 amended to read as follows:

5 "**§88-324 Acquisition of membership service.** (a) Under
6 rules as the board may adopt, any class H member may file with
7 the system a statement of all service as an employee or other
8 service paid for by the State or a county rendered prior to the
9 member last becoming a member that is not credited to the
10 member, for which the member claims prior service credit, and
11 also a statement of the services for which the member claims
12 membership service credit and, except as provided in
13 subsection (d) or with respect to service credit paid for
14 pursuant to section 88-59 under an irrevocable payroll
15 authorization entered into prior to July 1, 2006, or to
16 forfeited service to which subsection (e) is applicable, for
17 which the member agrees to have additional deductions made from
18 the member's compensation or to make a lump sum payment as
19 described in this section.

20 After the filing of the statement by the member, the system
21 shall verify the service claimed and determine the service
22 credit allowable.

1 (b) Except as otherwise provided in subsection (c), (d),
2 or (e), verified membership service shall be paid for in any one
3 of the following methods, at the member's option:

4 (1) If deductions commence or the lump sum payment is made
5 prior to July 1, 2020:

6 ~~[(1)]~~ (A) By deductions from the member's compensation
7 pursuant to section 414(h)(2) of the Internal Revenue
8 Code of 1986, as amended, under the employer pick up
9 plan under section 88-326. An irrevocable payroll
10 authorization filed by the member for a period not to
11 exceed sixty months shall remain in effect until the
12 completion of the payroll payments or termination of
13 employment, whichever is earlier. The amount of
14 service credit that may be acquired pursuant to this
15 method shall not exceed the period over which the
16 payroll payments are made. The member may elect to
17 have:

18 ~~[(A)]~~ (i) Deductions from the member's compensation of
19 twice the contribution rate provided for in
20 section 88-325 over a period equal to the period
21 for which membership service credit is allowable
22 not to exceed sixty months; or

1 ~~[(B)]~~ (ii) Deductions from the member's compensation
2 of one and one-half times the contribution rate
3 provided for in section 88-325 over a period
4 equal to twice the period for which membership
5 service credit is allowable, not to exceed sixty
6 months; or

7 ~~[(2)]~~ (B) By lump sum payment of contributions computed at
8 the contribution rate provided for in section 88-325
9 applied to the member's monthly rate of compensation
10 at the time of payment multiplied by the number of
11 months for which membership service credit is
12 allowable.

13 (2) If the deductions commence or the lump sum payment is
14 made after June 30, 2020:

15 (A) By deductions from the member's compensation
16 pursuant to section 414(h)(2) of the Internal
17 Revenue Code of 1986, as amended, under the
18 employer pick up plan under section 88-326. An
19 irrevocable payroll authorization filed by the
20 member for a period not to exceed sixty months
21 shall remain in effect until the completion of
22 the payroll payments or termination of

1 employment, whichever is earlier. The amount of
2 the deductions shall be sufficient to amortize
3 the actuarial cost of the membership service to
4 be credited, together with interest at the
5 investment yield rate assumption in effect as of
6 the date the claim for service credit is made, in
7 level twice-monthly payments over the period
8 specified in the irrevocable authorization.
9 Service credited shall be proportional on the
10 basis of whole months. For example, if a member
11 elects to acquire twenty-four months of service
12 over sixty months and terminates employment after
13 thirty and one-half months of deductions, the
14 member will acquire twelve months of membership
15 service credit; or

16 (B) By lump sum payment equal to the actuarial cost
17 of the membership service to be credited;
18 provided that the member has at least five years
19 of membership exclusive of any previous service
20 acquired under paragraph (1) or subparagraph (A).

21 The actuarial cost of the membership service to be credited
22 shall be determined by the actuary for the system based on

1 the age of the member in full years as of the date the
2 claim for service credit is made, the investment yield rate
3 assumption in effect as of the date the claim for service
4 credit is made, the retirement age eligibility requirements
5 and retirement allowance provisions applicable to the
6 member, and other actuarial assumptions adopted by the
7 board in effect as of the date the claim for service is
8 made.

9 The deductions from compensation or lump sum payment shall
10 be paid to the system and shall be credited to the member's
11 individual account and become part of the member's accumulated
12 contributions.

13 Class H membership service credit in addition to any other
14 service credited to the member shall be allowed for the period
15 for which the deductions from compensation or lump sum payment
16 have been made in accordance with this subsection[-]; provided
17 that payment shall commence within one year after the system
18 notifies the member that the service claimed has been verified
19 and that service credit is allowable; and provided further that,
20 for a member who becomes a member after June 30, 2016;

21 (1) Membership service credit for prior service or for
22 service rendered prior to the member's last becoming a

1 member shall be claimed within one year after the
2 member enters service;

3 (2) Membership service credit for military service
4 pursuant to section 88-132.5 shall be claimed within
5 one year after the member meets the requirements of
6 section 88-132.5(a) or (b); and

7 (3) Any other membership service credit acquired pursuant
8 to this section shall be claimed within one year after
9 the member becomes eligible to receive the service
10 credit upon satisfaction of the requirements of this
11 section.

12 (c) Verified membership service for which a former class A
13 or class B member in service on June 30, 2006, was eligible as
14 of June 30, 2006, but failed to claim by the date established by
15 the board pursuant to section 88-322(b), shall be paid for in
16 any one of the following methods, at the member's option:

17 (1) If deductions commence or the lump sum payment is made
18 prior to July 1, 2020:

19 ~~[(1)]~~ (A) By deductions from the member's compensation
20 pursuant to section 414(h)(2) of the Internal
21 Revenue Code of 1986, as amended, under the

1 employer pick up plan under section 88-326. An
2 irrevocable payroll authorization filed by the
3 member for a period not to exceed sixty months
4 shall remain in effect until the completion of
5 the payroll payments or termination of
6 employment, whichever is earlier. The amount of
7 service credit that may be acquired pursuant to
8 this method shall not exceed the period over
9 which the payroll payments are made. The member
10 may elect to have:

11 [~~A~~] (i) Deductions from the member's
12 compensation of twice the contribution rate
13 applicable to the member under section 88-45
14 as of June 30, 2006, over a period equal to
15 the period for which membership service
16 credit is allowable, not to exceed sixty
17 months; or

18 [~~B~~] (ii) Deductions from the member's
19 compensation of one and one-half times the
20 contribution rate applicable to the member
21 under section 88-45 as of June 30, 2006,
22 over a period equal to twice the period for

1 which membership service credit is
2 allowable, not to exceed sixty months; or

3 ~~[-(2)-]~~ (B) By lump sum payment of contributions
4 computed at the contribution rate applicable to
5 the member under section 88-45 as of June 30,
6 2006, applied to the member's monthly rate of
7 compensation at the time of payment, multiplied
8 by the number of months for which membership
9 service credit is allowable.

10 (2) If the deductions commence or the lump sum payment is
11 made after June 30, 2020:

12 (A) By deductions from the member's compensation
13 pursuant to section 414(h)(2) of the Internal
14 Revenue Code of 1986, as amended, under the
15 employer pick up plan under section 88-46. An
16 irrevocable payroll authorization filed by the
17 member for a period not to exceed sixty months
18 shall remain in effect until the completion of
19 the payroll payments or termination of
20 employment, whichever is earlier. The amount of
21 the deductions shall be sufficient to amortize
22 the actuarial cost of the membership service to

1 be credited, together with interest at the
2 investment yield rate assumption in effect as of
3 the date the claim for service credit is made, in
4 level twice-monthly payments over the period
5 specified in the irrevocable authorization.

6 Service credited shall be proportional on the
7 basis of whole months. For example, if a member
8 elects to acquire twenty-four months over sixty
9 months and terminates employment after thirty and
10 one-half months of deductions, the member will
11 acquire twelve months of membership service
12 credit; or

13 (B) By lump sum payment equal to the actuarial cost
14 of the membership service to be credited;
15 provided that the member has at least five years
16 of membership exclusive of any previous service
17 acquired under paragraph (1) or subparagraph (A).

18 The actuarial cost of the membership service to be credited
19 shall be determined by the actuary for the system based on
20 the age of the member in full years as of the date the
21 claim for service credit is made, the investment yield rate
22 assumption in effect as of the date the claim for service

1 credit is made, the retirement age eligibility requirements
2 and retirement allowance provisions applicable to the
3 member, and other actuarial assumptions adopted by the
4 board in effect as of the date the claim for service is
5 made.

6 The deductions from compensation or lump sum payment shall be
7 paid to the system and shall be credited to the member's
8 individual account and become part of the member's accumulated
9 contributions.

10 Class H membership service credit in addition to any other
11 service credited to the member shall be allowed for the period
12 for which the deductions from compensation or lump sum payment
13 have been made in accordance with this subsection[-]; provided
14 that payment shall commence within one year after the system
15 notifies the member that the service claimed has been verified
16 and that service credit is allowable; and provided further that,
17 for a member who becomes a member after June 30, 2016:

18 (1) Membership service credit for prior service or for
19 service rendered prior to the member's last becoming a
20 member shall be claimed within one year after the
21 member enters service;

(2) Membership service credit for military service pursuant to section 88-132.5 shall be claimed within one year after the member meets the requirements of section 88-132.5(a); and

(3) Any other membership service credit acquired pursuant to this section shall be claimed within one year after the member becomes eligible to receive the service credit upon satisfaction of the requirements of this section.

(d) Verified prior service and verified membership service for which a former class C member in service on June 30, 2006, was eligible as of June 30, 2006, but failed to claim by the date established by the board pursuant to section 88-322(a), shall be credited at no cost as class C credited service.

(e) Except as provided in subsection (f) or in section 88-322:

(1) Class A, class B, or class C credited service shall not be acquired as class H credited service; and

(2) Class A, class B, or class C credited service shall be restored as class C credited service at the rate of one month of service credit for each month of service

1 rendered following the later of conversion to class H
2 membership or the return to membership as a class H
3 member.

4 Forfeited class H membership service shall not be restored.

5 (f) Forfeited class A or class B credited service being
6 acquired under an irrevocable payroll authorization entered into
7 under section 88-59 prior to July 1, 2006, shall be credited as
8 class H credited service."

9 SECTION 6. Statutory material to be repealed is bracketed
10 and stricken. New statutory material is underscored.

11 SECTION 7. This Act, upon its approval, shall take
12 effect on July 1, 2016.

13
14 INTRODUCED BY:



15 BY REQUEST

S.B. NO. 1089

Report Title:

Retirement service credit; workers' compensation benefits.

Description:

Requires an employee receiving workers' compensation benefits to have retirement contributions deducted from those benefits.

Establishes deadlines: (1) for public employees who join the employees' retirement system after June 30, 2016 to claim membership service credit for previous service and for military service credit; and (2) for starting payments to acquire membership service credit for previous service, military service and unpaid leave. Provides for payment for acquisition based on actuarial cost.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

JUSTIFICATION SHEET

DEPARTMENT: Budget and Finance

TITLE: A BILL FOR AN ACT RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

PURPOSE: To amend section 78-25 to require employees receiving workers' compensation benefits to deduct retirement contributions from benefits received.
To provide for an actuarially neutral cost for the acquisition by members of the Employees' Retirement System of membership service credit for previous service and for previous military service and to establish deadlines for: (1) new members of the Contributory and Hybrid plans of the Employees' Retirement System to claim membership service credit for previous service and for previous military service; and (2) for members to initiate payment for previous service, previous military service, and unpaid leave.

MEANS: Add a new section to chapter 88, Hawaii Revised Statutes. Amend sections 78-25, 88-59 and 88-324, Hawaii Revised Statutes.

JUSTIFICATION: When an employee is approved for workers' compensation wage loss replacement benefits, the employee will be paid up to their full salary for the period of their approved industrial injury leave. In contrast to other types of leaves, the employee will earn full retirement service credit for this period. Contributory and hybrid employees have the option, but are not required, to deduct retirement contributions from these wage replacement benefits. The retirement contribution accounts for employees who do not have retirement deductions withheld from their workers' compensation payments will be deficient unless the employee chooses to

make up the deficiency, which may be years after the service credit is granted and fully credited for that period. Even if an employee never makes up the deficiency, the employee is still entitled to full retirement service credit.

This proposal will require that contributions are made contemporaneously with the payment of compensation, thereby assuring that the service credit for this period is at least partially funded by the employee.

The acquisition of previous or military service by Contributory and Hybrid members of the Employees' Retirement System is voluntary and currently may be claimed and purchased at any time during the employee's employment. This additional service credit will increase the employee's retirement pension, and at times will also allow the employee to retire earlier than their expected retirement date.

Although earned membership service is supported by employee and employer contributions for the duration of a member's employment, acquired service is not. Previously forfeited service may be acquired by the Contributory member at any time during the employee's employment at a cost based on the employee's salary at the time of purchase. Previous military service may be acquired at any time after service eligibility requirements are met, and is also based on the employee's salary at the time of purchase. This amount is significantly lower than the actuarial cost which would be calculated based on the employee's age, retirement eligibility and projected retirement benefits over time. Furthermore, when an employee elects to pay for the purchase of service just prior to retirement, the system does not receive the investment returns that the system would have received if the payments had been made earlier. As a result of payments that are

insufficient to cover the actual cost of the increased benefits and that do not allow the system to realize investment returns over time to defray the cost of the increased benefits, the increase in the member's retirement benefits are borne by the employers and current and future members of the Employees' Retirement System.

The proposed amendments will require that the member claim for previous service or military service within one year of enrollment or eligibility. After June 30, 2020, the cost to purchase membership service will be based on an actuarially neutral cost. The delayed implementation date will allow the system to obtain confirmation from the Internal Revenue Service that the change in the purchase price amount for acquiring previous service and military service will not be considered a change to the employer pick up plan previously approved by the Internal Revenue Service.

Impact on the public: None.

Impact on the department and other agencies:
Possible impact on state and county payroll offices due to the required processing of these deductions.

GENERAL FUND:	None.
OTHER FUNDS:	None.
PPBS PROGRAM DESIGNATION:	BUF-141/Retirement
OTHER AFFECTED AGENCIES:	None.
EFFECTIVE DATE:	July 1, 2016.